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“How Do Controllers and Managers Interpret Budget Targets?”

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## How Do Controllers and Managers Interpret Budget Targets?

### Abstract

**Purpose** – The purpose of this study is to further understanding of how and why interpretations of budget targets differ from one person to another even in the same business unit.

**Design/methodology/approach** – The study adopts a qualitative case study research approach involving the review and analysis of the prior literature and interviews conducted among controllers and managers of a highly successful business unit.

**Findings** – Both the theoretical and empirical results suggest that organizational budgetary processes do not provide similar understanding of budget targets for each person. While some shared interpretations are evident, individual-level variations occur in the personal and subjective meanings controllers and managers give to budget targets in their own *consciousness*, *situationality* and *corporeality*. A personal historical basis for understanding may impact a manager's interpretations of budget targets, but the interpretations can also be dynamic and change over time.

**Research limitations/implications** – The study is both enabled and limited by its basic assumptions and approaches, and the findings may be most relevant to companies with similar profiles. The study, nevertheless, furthers understanding of the characteristics of controllers and managers and what they perceive this important feature of accounting to mean in practice.

**Practical implications** – It could be highly useful to jointly discuss the intended primary purposes and nature of organizational budget targets. Otherwise, people may understand targets in different, and perhaps even in contradictory ways, which could, in turn, impair the functioning of control systems.

**Originality/value** – This paper contributes to current budgeting research in that it interprets individual-level differences.

**Key words** – Budget, Case study research, Target

**Classification** – Research paper

## 1. Introduction

One of the first and most interesting areas of behavioral accounting research has been the analysis of budget targets. Budget targets quantify management's expectations of selected financial and nonfinancial elements such as future income, financial position, units manufactured, head count, materials, and number of new products introduced (see Bhimani, Horngren, Datar, and Foster, 2008, 467). Since Argyris' (1952 and 1953) studies, a substantial body of literature has examined the methods of setting budget targets; the level of difficulty in achieving budget targets; the role of budget targets in evaluating and rewarding employees' performance; and the effects of budget targets on employee motivation and employee and organizational performance (for a review, see Covalleski, Evans, Luft and Shields, 2007, 7). Some studies have proposed that the purposes of budgets may be interpreted differently not only across organizations but also across organizational levels (Lukka, 1988a and 1988b; Ihantola, 2006) and by accountants and managers (Emmanuel, Otley and Merchant, 1991, pp. 161-162). While contradictory purposes of budgets and ultimately budget targets have been identified as such challenges that may potentially hinder the functioning of budgeting (Hopwood, 1974, p. 473), empirical research on how managers in the field actually interpret such accounting information is scarce.

This study is among the first to analyze managers' interpretation of budget targets as part of their work and organizational practices. Drawing on the results of qualitative field analysis, the objective of the study is to further understanding of *how* and *why* interpretations of budget targets differ from one manager to another even in the same business unit (see Figure 1). The first mentioned question 'how' is widely interpreted as referring to the specific ways managers in the field understand the main purposes and nature of budget targets. The second question 'why' is addressed by examining managers in, and from, their own personal situations.<sup>1</sup>

[Figure 1 about here]

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<sup>1</sup> Hence, managers' broader social, organizational, environmental and/or strategic contexts are beyond the scope of this study as they have already been addressed elsewhere (see, e.g., Hopwood, 1986; Hansen and Van der Stede, 2004; Jönssön, 1998; King *et al.*, 2010; Libby and Lindsay, 2010; Lukka, 1988a and 1988b).

In addition to examining the interpretations of senior managers, those of controllers and middle and lower-level managers are incorporated into our analysis. In this way, this study addresses some of the issues that Hansen, Otley and Van der Stede (2003, p. 110) and Hansen and Van der Stede (2004, p. 437) have identified to be among the currently most compelling areas for budgeting practice and research and Davila, Foster and Li (2009, p. 343) and Hall (2010) for management accounting and control research. The case study is conducted in a highly successful organization as there is lack of such case studies. The study makes the following contributions to the existing literature: (1) it introduces Rauhala's (1983 and 2005) and Pihlanto's (e.g., 2003, 2005 and 2009) work on holistic individual framework, which provides a novel way to direct and guide the theoretical and empirical analysis of individuals' interpretations of budget targets as part of their work and organizational practices, (2) as suggested by Jönsson (1998) and Hall (2010), it provides field evidence on how managers and controllers engage with accounting information, and (3) it generally extends research on budgeting in the context of a highly successful business unit.

The remainder of this paper is structured as follows. The second section of this paper will briefly review prior knowledge on the basic elements of this study, i.e., what the different purposes and nature of budget targets are, and integrate those with the work on holistic individual image framework by Rauhala (1983, 2005) and Pihlanto (2003, 2005 and 2009) to pursue a deeper and more detailed analysis of why managers interpret information differently. After describing the case site and the research methods applied in the third section, the data is described, analyzed and synthesized. The final section comprises a discussion and the conclusions.

## **2. Theoretical framework**

### *2.1. Purposes of budget targets*

Several purposes have traditionally been identified for budgets and ultimately for budget targets. Budget targets may be understood as financial plans, forecasts or as estimates of expected future outcomes that the management team has agreed upon. They can be used to communicate to the employees what is expected of them to coordinate activities across different parts of the organization and over time. Budget

targets show how resources are allocated within an organization, and they may serve as a formal authorization to a manager to spend a given amount of funds on specific activities. Budget targets can be set to motivate good performance, since people have been found to be sensitive to large goal-performance discrepancies, and motivated to decrease them by improving their performance. (For reviews, see, e.g., Bhimani *et al.*, 2008, pp. 467-472; Emmanuel *et al.*, 1991, pp.162-182). In addition to the above mentioned more traditional purposes, budgets can be utilized to communicate and implement the first year of the strategic plan (see e.g., Goold and Campbell, 1987; Mintzberg, 1983; Naranjo-Gil and Hartmann, 2006; Bhimani *et al.*, 2008). These purposes of budgets and budget targets refer to the *ex ante* use of information (see Lukka, 1988b, p. 13; Naranjo-Gil and Hartmann, 2006).

Alternatively, budget targets can be turned into responsibilities and commitments, standards and benchmarks against which actual results can be compared for unit and managerial performance evaluation and rewarding. Such monitoring and controlling of achievement of targets reflects *ex post* use of information (Lukka, 1988b, p. 13 and Naranjo-Gil and Hartmann, 2006).

Given the many purposes of budgets, managers should, according to Emmanuel *et al.* (1991, p. 164), “select those purposes for which reliable budgetary information is essential and to protect the system against those influences that tend to subvert its effectiveness in those chosen areas”. The question of the main purposes of budgets has received ample attention from scholars. For example, Mintzberg (1983) has identified two different types of budgeting systems based on whether the focus is on planning activities or evaluating overall performance. Lukka (1988b, p. 13) has distinguished planning and goal-setting versus evaluation of investments and managers as the main purposes of budgets. Rather similarly, Naranjo-Gil and Hartmann (2006) distinguish between resource allocation (planning and coordination) and performance evaluations (monitoring and controlling).

## *2.2 Differences in the interpretation of the main purposes of organizational budget targets*

Contradictory purposes of budgets and budget targets may hinder the functioning of budgeting. The three main areas of potential conflict are: when budget targets are used

as (i) forecasts or estimates of future outcomes, (ii) motivational targets, and/or (iii) a means of evaluating managerial and unit performance (Emmanuel *et al.*, 1991, p. 164).

For example, while an accountant may see financial planning and forecasting as the major purpose of budgeting, enabling him or her to make predictions and decisions regarding financing, other managers may see such financial consequences as constraints and regard the budgetary system solely as a means of communicating such information rather than as a planning tool (Emmanuel *et al.* 1991, pp. 162-163). Likewise, a director may use budget targets to authorize activities and to motivate subordinates, even when employees may have gotten used to perceiving planning and controlling (including performance evaluation) as the principal roles of budgeting (Ihantola, 2006).

The above examples reflect differences between the intended and actual purposes of budgets as well as in the perceptions between the controlling and the controlled level of an organization. According to Samuelson (1986), the *intended* role of budgeting is defined by the top management of the organization. The *actual* role of budgeting is the role it has in an organization. Finally, the *formal* role of budgeting is based on managers' statements or budgeting manuals (ipid. 1986).

### 2.3 Differences in the perceived accuracy and significance of budget targets

Interpretations of the nature of budget targets can also differ, hence possibly further complicating the functioning of budgeting processes. Following previous budgeting literature, the nature of budget targets is considered below in terms of its perceived accuracy and significance. According to Emmanuel *et al.* (1991), accuracy of budget targets may suffer at least for the following three reasons. First, a budget target intended to motivate high levels of performance may be set at a higher level of difficulty than it is expected to be achieved – such a budget estimate will be of little use as a forecast for financial planning purposes. Second, budgets that will be used to assess performance may be set at a lower level of difficulty by managers who know they will be evaluated against the budget target. The accuracy of the budget targets suffers and there is an evident danger in using the inaccurate budget numbers in other decision making processes, such as in pricing and performance rewarding decisions

and in the evaluation of capital-investment proposals. Third, if budget variances are always treated as a sign that somebody is at fault rather than as a sign of a healthy system, it is likely that budget targets will be met, but will not act as motivational targets. In addition, an actor's aim to obtain control of entirely unnecessary, or an excessive, amount of resources through budgetary biasing also reduces the accuracy of budget targets (see Wildavsky, 1975). According to Lukka (1988b) and Davila and Wouters (2005), additional financial resources can also be budgeted with a motivation intention.

Lukka's (1988a and 1988b, p. 428) case study of two organizations provides an example in which upward-biasing was used by actors at the controlling level to gain time through deliberately optimistic budgetary promises. It could usually be understood through motivation intention. In contrast, the creation of budgetary slack was clearly a dominant form of biasing among the other actors (i.e., at the controlled level). It was nearly always linked to the performance evaluation intention and seldom to resource allocation intention. Every actor was also found to have the opportunity to make his or her own interpretations (Lukka 1988b, p. 427). Two-budget systems were found to exist in that lower level targets were communicated to the actors at the controlling level. However, as Lukka (1988b, p. 431) pointed out, benefits of a system of two separate budgets may be gained in the short-term only; the other party's learning, unpredictability of his or her reactions to the information communicated, and various controls on the quality of information may diminish the gains of biasing in the long run.

Ihantola's (2006) longitudinal case study illustrates how a serious conflict in the perceived roles of budgets can reduce the accuracy and significance of budget targets. A director's attempt to authorize activities and to motivate subordinates resulted in high sales targets biased upwards to create as optimistic budgets as possible, and, consequently, in negative budget deviations year after year. Budgeters responded to the tense situation by also creating budgetary bias (slack) to provide protection against the overly optimistic targets, and control and evaluation discussions became "pointless rituals." Consequently, the perceived accuracy and significance of the budget targets suffered reducing the effectiveness of budgetary control. A favorable change happened in the case organization only after a number of years (in year 13),



when the directors' and budgeters' views of the purpose of budgeting came closer. While budget targets were still set at challenging levels, directors began to include some buffer in budgets to protect from the demands of the central administration. Over the years, the budgeters had also internalized the company's record-breaking culture and strategy and had gradually begun to budget in harmony with those values (i.e., by raising targets) even when there was no more pressure to raise targets.

Whilst the above studies have primarily viewed budgetary slack as dysfunctional, in their case study, Davila and Wouters (2005) analyzed its positive consequences. They presented empirical evidence on how a company purposefully budgeted additional financial resources during the budgeting process and through the underlying cost accounting system with a motivation intention. Budgetary slack was used as a tool to influence how managers allocate their attention when performance requires balancing multiple short-term goals such as costs, service and product quality. It was not created indiscriminately, but only when attention to alternative goals demanded it.

In conclusion, the above field studies have not only found shared meanings of the purpose, accuracy and significance of budgets to exist owing to managers' close interaction with each other in their day-to-day situations (e.g., Ihantola, 2006, p. 163). They have found differing purposes for budgets across organizational levels (e.g., Ihantola, 2006; Lukka, 1988a and 1988b).

#### *2.4 The holistic individual image framework*

This study further examines how and why interpretations of budget targets differ from one individual to another even within the same organization. In this study, the analysis of individual (manager) level was based on the holistic individual image framework. According to this, each decision-maker is a unique individual and, therefore, likely to experience and interpret matters at least somewhat differently in his or her mind and situation. The holistic individual image was initially developed by Rauhala (1983). It has been later applied to, and further developed in, management accounting theories by Pihlanto (e.g., 2003, 2005 and 2009). Taken together, these studies have clarified the role of the individual actor in different research perspectives. Some empirical applications in budgeting climate (Ihantola, 1997), capital budgeting (Wikman, 1997) and strategy (Määttä, 2005) have also been made.

According to Rauhala (2005), the holistic individual image framework consists of the following three interrelated modes of the existence of human individual, which together form a holistic entity (see Figure 2):

1. *Consciousness*, or the existence of a person as a psychical-mental phenomenon: experiencing and thinking.
2. *Situationality*, or existence in relation to a certain part of reality (world): a person's situation.
3. *Corporeality*, or existence as a set of organic processes: the body.

[Figure 2 about here]

According to Rauhala (2005), people need to generate in their consciousness (i.e., mind) a meaning for phenomena and objects to understand them. The process of forming a meaning consists of two separate mental steps: The first is a pre-understanding of an object ("noema") located in the individual's situation. The second step follows if and when a person understands what the object means ("noesis"). Understanding refers to what a person knows, feels, believes in, intuitively or dreams about phenomena and objects in his or her situation in terms of them being something. Therefore, individual managers can be expected to understand a budget target in terms of personal and subjective meanings emerging from their consciousness. According to the holistic individual image framework, people also act in relation to meanings rather than to objects as such. As Pihlanto (2009, p. 9) has stressed that the meanings may be abstract and ideal, but also unclear, ill-structured, distorted or erroneous.

As Pihlanto (2009, p. 13) has pointed out, the subjective worldview of the decision-maker forms a personal "historical" basis for understanding. However, people's interpretations of objects and phenomena may also be temporal, that is, the interpretations of organizational practices can differ from period to period (see also Boland, 2001). In the context of the holistic individual image this is because various meanings cumulate in the consciousness, and there in a person's worldview, and are constantly refined at least in part as his or her situation changes. Old meanings may exist, or be forgotten, fading into unconsciousness or retrieved once again into consciousness. New meanings emerge on the basis of new contents appearing in a

situation as a person observes and learns new things (Pihlanto, 2009, p. 9). New meanings are interpreted and located in relation to past experiences (see Preston, 1987, p. 92 in Pihlanto, 2009, p. 9).

According to the holistic individual image framework, the decision-maker's worldview consists, at least conceptually, of various *horizons*, which refer to more or less coherent groups of meanings in a certain area of knowledge or experiences. The particular horizon represents the meanings (understanding) accumulated, for example, in previous budgetary processes and also during education. This horizon becomes activated when an individual is dealing, for example, with budgeting and understands the task in relation to prior understandings accumulated in the horizon (see Pihlanto, 2009, p. 10).

Every decision-maker's *situationality* consists of a multitude of components. People develop and maintain their own 'situational playroom' based on their personal history both in life and at work, their education, and their experienced meanings in different occasions. Although many of the same situations (reports, occasions, etc.) are shared among colleagues, no single horizon is alike. (Määttä, 2005, p. 363) Each individual's situationality is as unique as a fingerprint – only she or he has expressly lived through particular experiences in the past and is presently in a particular situation. Every piece of information, such as that on budgeting, is interpreted in relation to the other components of the situation and to the worldview of an individual. Consequently, budgeting information, for example, provides only one set of the components of the decision-maker's situation and different decision-makers interpret the information in different ways (see Pihlanto, 2009).

Both situationality and the worldview in a person's consciousness represent the personal history. Manager background consisting of these elements can be a reason to hire a manager and to adopt management control systems (Davila *et al.*, 2009, p. 342). In the same way as the history of an organization is an influential factor in an accounting system context (Bhimani, 1999), the personal history influences the decision-maker in many ways (Pihlanto, 2009). To the extent that accounting information directs attention (Simon *et al.*, 1954 in Jönssön, 1998) and makes actions

in a firm visible to the actor (Hopwood, 1986), they become part of the situationality of the decision-maker (see Pihlanto, 2009, p. 11).

Consciousness steers the course of one's physical existence in a situation in terms of forming meanings, but is dependent on the physical processes of *corporeality*. While corporeality has not been analyzed as an essential element in previous accounting research, it is nevertheless necessary for decision-makers, because all three modes of existence appear to be inextricably linked. Both corporeality and consciousness are "located" in, and depend on, situationality. Corporeality realizes the physical side of the existence of the decision-maker and simultaneously makes consciousness and situationality possible. A change in one of these three modes of existence also causes changes in the others. (Rauhala 2005, p. 126)

### **3. Data and method**

#### *3.1 Case company*

To find out how and why individual differences also exist in the use of budget targets in the same business unit necessitates an in-depth case study. Several companies were initially considered, some of which were contacted to inquire whether they would be interested in participating in the study. One of the companies was found to have such a business unit in Helsinki, Finland that appeared extremely interesting as a research site. This was primarily because the business unit was a world-wide market leader (with about 14 per cent market share) and the most profitable unit both in its own multinational corporation and in its particular high technology industry representing a highly successful company. That business unit was selected as the site of the research as there has been a lack of case studies on successful companies.

The business unit comprises two profit centers and about 2350 employees. It operates in the electronics industry and produces industrial electronics. There are thousands of variations of its product as it is customized according to usage. Given that the production process is fairly complex, SAP enterprise resource planning system is utilized in production planning and material management. In addition, SAP modules are used in finance and control (including budgeting), cash management and sales. While the degree of competition the business unit faces is quite high, competitive

advantages are obtained from multiple sources, such as low prices, comprehensive sales network, high quality product and high quality research and development (R&D).

### 3.2 *Data collection and analysis*

The data of the study were collected by interviews. In total, 17 interviews were conducted – nine in the first round and seven in the second round. One of the controllers of the business unit aided in selecting the interviewees from various hierarchical and functional levels. The interviewees selected represent controllers and both middle- and senior-level managers. Table 1 details the respondents, and Table 2 the interview statistics.

[Tables 1 and 2 about here]

During the first round of interviews, each interviewee was first asked to provide background information about himself or herself and to express his or her perceptions of the budgetary planning and control processes. The topic of this study emerged from the empirical data collected as it reflected noteworthy differences in how people interpret budget targets. More specific questions about the purposes of budgets were presented during the second round of interviews. Flexible and open-ended questions were emphasized (see Appendix 1). While three of the interviewees were absent from the second round of interviews due to transfer overseas or conflicting schedules, all others were available for both sets of interviews. The second interviews were found sufficient since incremental learning was diminishing (Glaser and Strauss, 1967 in Eisenhardt, 1989, p. 545).

All the interviews were recorded by tape-recording and/or taking of detailed notes, all of which were transcribed and analyzed afterwards. Data were analyzed in a three-phase process. First, the chronological order of events was established. Then, the interviewees' interpretations of budget targets were interpreted and classified. Finally, interpretations of the interviewees were compared to highlight differences.

The strengths of qualitative field research are in its internal validity, since interviews allow collecting direct and indepth data with rich descriptions (Lukka, 1988a). All the

data was analyzed and equally treated (Lillis, 2006, p. 467), and the various phases of the research documented in detail to further improve procedural validity. Contextual validity has been improved by triangulating existing theoretical knowledge, earlier empirical findings and their interpretation, as well as the empirical findings of the current study and their interpretation (c.f., Lukka and Kasanen, 1995). Reliability of the research has been enhanced, for example, by conducting two rounds of interviews, by making additional clarifying questions to interviewees, and by reviewing, and having the interviewees review, the interview transcriptions. Rich descriptions have been included so that readers of the study could assess transferability of the results to other settings (c.f., Lincoln and Guba, 1985 in Koskinen *et al.*, 2005, p. 257).

#### **4. Interpretations of budget targets in the business unit**

The case study that follows presents a reflection on how controllers and managers employed by a successful business unit interpret budget targets. The in-depth interviews of the two controllers, three senior and four other managers are described, interpreted and analyzed below. In each case, the interviewees are first characterized in their personal situations, followed by description and analysis of how each of them seems to interpret budget targets. Table 3 synthesizes the interviewees' interpretations including thoughts and experiences of the main purposes of budget targets and of their nature. In so doing, it summarizes each manager's budget target horizon, which consists of the group of meanings on this particular area of knowledge and experiences.

[Table 3 about here]

##### **Director A (Finance)**

The Director A is about 40 years old. He holds an M.Sc. in Accounting and Finance. In total, he has about 15 years' experience of financial management in various positions. He has a leading position in the business unit's financial management. Hence, Director A's interview data present the intended organizational viewpoint of the purposes of budget targets. When discussing budgetary processes, Director A seems to primarily understand budget targets as *forecasts*. He is very enthusiastic about the increasing accuracy of budget targets. According to him:

“The accuracy of forecasts is pretty good at both the upper and lower rows of the budgets. Much of the variances between budgeted and actual numbers have been due to exchange rate changes, not just pure budget variances.”

He explains the increasing (perceived) accuracy as being related to organizational and behavioral factors. First, the centralization of budgetary planning has made it easier to identify and eliminate *guesses* and *mistakes*. Second, there has been a change in the budgeting culture during the past eighteen months. Since it was discovered that optimistic predictions can lead to financial problems, the business unit started to report budget targets at two levels: slightly higher, more challenging budget targets internally (i.e., within the business unit); and lower, more pessimistic but easier to reach budget targets to headquarters. These results clearly refer to the simultaneous use of two budgets – one for financial *forecasting* and the other for *motivating* managers and employees. Implicit distinctions were made between accurate and inaccurate budget targets. More explicit distinctions were made between optimistic and pessimistic, and staff- and corporate-level budget targets.

#### **Controller A (Profit center 1)**

Controller A is 38 years old and she also holds an M.Sc. in Accounting and Finance. She has several years work experience in the field. She has worked in the corporation for about five years. She had been in her current position at one of the profit centers of the business unit for about two years at the time of the first interview.

Controller A lends a very rich set of purposes to budget targets. First, she discusses budget targets in terms of *benchmarks*. Some of the budget targets, in particular the sales and profit targets, appear to be important benchmarks, as highlighted by Controller A as follows:

“If sales is not driving and there are predictions that we won’t reach the budget [targets], explanations and measures need to be ready for management... If profits fall, management starts to pay attention right away....”

Some other budget targets do not appear to be as important as benchmarks. In regard to the R&D department, Controller A admits that she has never reviewed R&D budget deviations. She explains this by saying:

“R&D is so much about people, that they even cannot exceed their budget that much. It is mostly salaries, and only to a small extent parts.”

Second, Controller A points out that in her business unit budget targets are selectively used for *communication*, when discussing between controllers. When discussing with the staff, she rather tells how the profit center is doing compared to last year. Third, later on in the discussion, Controller A views budgeting and budget targets as “the information about what we do, what things depend on, and knowledge of how things depend on each other.” Hence, she seems to view them as helpful for *coordinating*. Fourth, she also views them as being of significant importance in creating *a frame for business*. Fifth, as with Director A, Controller A discusses *forecasts* in the context of budgets:

“Deviations show whether we know our own business well enough to predict. If the forecasts of sales are fine, then material forecasts will be fine, and production forecast will be fine.”

Controller A made several characterizations about the accuracy of budget targets. First she refers to the budget target proposals as *dreams*:

“Budget targets tell a dream about the growth of a segment... Generally, we eliminate the overly big dreams of Sales.”

She also refers to budget targets as *guesses* or *best guesses*, as the following quotes illustrate:

“Information can be used in such a way that the budget is a best guess... Someone from Sales said that sensible activity has not been stopped because of budget guesses...”



In conclusion, based on Controller A's interview, it was possible to interpret five different purposes to budget targets. One of her purposes of budget targets – forecasts – is similar to Director A's. The budget targets' roles as benchmarks and forecasts were emphasized. Her responses reflect several meanings for the nature of budget targets and proposals submitted to her and she seems committed to improve their accuracy.

### **Controller B (Profit center 2)**

Controller B is 36 years old. She is an academic engineer. She has worked at the corporation for ten years. At the beginning of the interviews she had been in her current position for less than a year. While discussing the nature of budgeting processes and the meaning of budget targets, she also expressed a fairly narrow view of budget targets, dominated by the formal organizational purposes. She also seemed to view budget targets first of all as *forecasts*.

“In regard to sales there is continuous forecasting for the whole year aiming at the same numbers as in the budget.”

Second, in line with Controller A, she also refers to budget targets as *benchmarks*. She explains this by saying that: “Budget deviations are followed a lot. Is there an acceptable reason?”

Third, she views budget targets as creating an *action plan*.

“[Budget targets] are meaningful, because they are part of an action plan. They even hold substantial significance from the viewpoint of action.”

### **Director B (Logistics)**

Director B is 50 years old. He holds an advanced degree in engineering. He has 25 years' work experience in his specific field and over seven years' experience in the corporation in production. He is a member of the leadership group. At the time of the first interview, he had been in his current position for less than a year. He participates in the preparation of investment budgets and in budgeting personnel and running costs for about five cost centers.

Director B's interpretation of budget targets comprised two purposes. Like many of the other interviewees, Director B perceives the management group to generally view budget targets as important *benchmarks*. According to him,

“One is allowed to exceed them on the income side and fall short on the expense side, and not get blamed... [Otherwise], we start to arrange meetings and look at what is causing the deviations...”

Director B attaches differing degrees of importance to budget targets at the business unit and his departmental level. From his own department's perspective, he seems to attach somewhat less importance to budget targets as part of organizational practices:

“Availability [of products] has been ranked pretty high in our strategy. We do not really pay much attention to budgets, even if they are exceeded.”

Director B explained the less significant meaning of budgets at his department by noting that “budgeting should not restrict growth.” Second, in Director B's view, the annual budget *implements the business unit strategy*.

“The other aspects ranked high by the strategy include: delivery, reliability, quality, and productivity. They are followed with separate reports on a regular basis, but also in the annual budget.”

### **Director C (Sales)**

Director C is also middle-aged. He has worked 20 years all around the corporation including in its European, North American, and Asian operations. He first started in R&D and since then has been almost exclusively at the sales department. He has been working in his current profit center for about three years. He is deeply involved in budgetary planning and control, is responsible for developing, and following up, budgets for sales units in 45 countries.

Director C, first of all, views the meaning of budget targets as a *contract* that is negotiated:

“If there are new proposals, ideas, they need to be utilized. But it is very important that we stick to the targets that we have agreed upon, since if someone else prepares material (for example, for marketing planning) based on them, it must not bounce.”

Director C clarifies that budget target contracts have been increasingly set in the leadership group and part of the process takes place with the controller. He also indicates that budget targets are important *benchmarks* to an extent but that other factors also matter.

“There are meetings where we review how we have progressed compared to the budget, and where we, even more so, pay attention to growth... Growth and profit margin targets... expenses, turnover of inventory predictions: are the targets being hit?”

“Well, everyone’s job pretty much depends on reaching the targets. And they do take them seriously. But we make two budgets. And it may be that our [profit center’s] growth and other targets are even higher internally than externally [for headquarters]... And then we get to work hard.”

Third, Director C points out that sales targets are tied to the *performance rewarding* system in part as fifty percent of the bonuses have been tied to the sales and budgeted profit of the profit center. The other half of the bonus of the sales staff is tied to their regional sales and to certain other activities. Fourth, Director C also refers to budget targets as a *goal*:

“If you think of this kind of industry, which grows by 30 or 40 percent [a year], it is quite an astronomical number and yet it is a normal goal.”

In line with Controller A, Director C also views budget target proposals as *dreams*, the accuracy of which need to be improved. He considers sales estimates pretty accurate. In conclusion, for Director C, budget targets serve several purposes, are highly important, and need to be accurate. He attached the benchmarking role to budget targets, as his colleagues, but also viewed budget targets as contracts, goals, and as part of performance rewarding system.

### **Manager A (Information Management)**

Manager A is 40 years old. She is an academic engineer and has worked at the corporation for about ten years. She has held her current position for about four years. She participates in the budgetary planning and follow-up of overhead and project costs.

Manager A attached three kinds of purposes to budget targets: First, like most of the other interviewees, Manager A seems to view budget targets as *benchmarks*.

According to her:

“If the budget is lagging, it shows that maybe we have not got enough things done and should do something about it. Or if we have exceeded [the budgeted expenses] by a lot, have we done the wrong things?”

Manager A points to certain differences in the accuracy of benchmarking:

“One is more up to date in Sales. Production follows sales numbers to know the production volumes required. Reacting is done at an extremely detailed level all the way to suppliers.

“All deviations are tracked in a more accurate way at my cost center [than at some others]. Yet nothing is left undone. ... The purpose is to grow, not to save money. Those units that are performing poorly may be different, and accuracy would grow.”

Depending on the situation, her attitude about the nature of budget targets as benchmarks can also be relatively flexible. According to her: “If a new employee needs a PC, which was not budgeted, we’ll still buy it, since it is needed... Positive budget deviations may occur somewhere else.”

Manager A also views budget targets to *coordinate activities* and to serve as a *frame for business* as they help to reduce the overall situation into smaller, more easily manageable pieces, cost centers. At times, Manager A sees budget targets as somewhat faulty and erroneous in regard to cost allocations. She comments about the

significance of budgeting as follows: it “has remained the same; not very significant, but significant nonetheless.”

### **Manager B (R&D)**

Manager B is 39 years old. He has worked at the corporation for nearly 15 years and about four years in his current position. He is an academic engineer by education. He participates in preparing a cost budget for his own department. At the same time, he is a member of the business unit leadership group.

Manager B also discusses the *benchmarking* role of budgets. He explains that the management group reviews budget targets once a month. In regard to his own department, Manager B does not seem to attach as much importance to budget targets.

“Well, in practice, we take a look at the R&D budget once a year... Personnel expenses are the largest cost item [in R&D] and we cannot influence it... I am most interested in how the expenses of various projects develop...”

Second, Manager B discussed links, and lack of them, between the business unit and departmental budgets and the *performance rewarding system*.

“I do not receive any rewards based on the budget of my unit. Most officials get a half of their bonus from the business unit level measures. They are orders and profits. The other half comes from departmental performance. In our case it is the time schedules of R&D projects.”

Third, Manager B views superior managers to *monitor* budget targets.

“If one has exceeded unit [cost] targets, there is less peace in which to work. One gets ‘support’ from the upper levels for sure.”

Fourth, Manager B attaches a *forecasting* role to budget targets. He thinks that R&D budget targets can be quite well predicted. Fifth, Manager B also views budget targets to provide a *frame for business* in that one can see how many people one can keep employed. Overall, Manager B has a mostly positive view of budgets: “I think [the

budgets] are mostly supportive.” In conclusion, like many of the other interviewees, Manager B brings up the budget target’s roles as benchmarks, forecasts, and as a frame for business, but this particular combination of purposes is unique to him. The other purposes of budgets he mentions included performance rewarding, and monitoring. He views departmental budget targets of less importance than those of the business unit, but has a mostly positive view of budgets.

### **Manager C (Production)**

Manager C is a 35 year old academic engineer. He has worked at the corporation for about nine years and three years in his current position. He participates in planning personnel numbers, investment needs, and some overhead costs for his department. But he considers that he does not participate in budgetary planning, rather that the controller takes care of it all.

Manager C seems to attach three different types of roles to budget targets. He first views budget targets to aid in *communicating* targets. Second, he does *benchmarking* in part on the basis of nonfinancial measures:

“I prefer to follow the profits per produced volume and with what kind of number of personnel they were reached and how many goods there are in the storage.”

Finally, he associates budgets with *implementing a strategy*:

“Growth targets and sales budgets are quite clearly about communicating growth strategy with a certain number that is targeted.”

In regards to the nature of budget targets, Manager C thinks that they should be realistic and reflect the best plan or guess.

### **Manager D (Product engineering and quality)**

Manager D is a 41 year old engineer. He has worked in the corporation for a total of 14 years and has been involved in both domestic and Asian operations. At the time of the first interview, he had held his current position for about a year and was

participating in the budgetary planning of his own team by presenting the overhead costs of his staff including the number of employees and their wages. At the time of the second interview, he no longer participated in budgetary planning. Instead, the leadership group and controller assigned budget targets for his team.

Manager D attached a very wide range of purposes to budget targets. When first interviewed, he viewed budgets as *benchmarks*:

“Generally speaking, we compare actual to budget. In addition, there... is competition between the profit centers. It is not serious but one needs to notify, if one has grown more than the others.”

At the time of the second interview, Manager D also viewed budget targets as *benchmarks*. He notes the following about the profit center performance: “We are doing well. Both our profit and turnover are going to be better than budgeted.” He also seemed to view budget targets as *goals* and as a means of *allocating resources*:

“Budgets show the year’s targets, and the financial resources that exist to do new things.”

In addition, Manager D appears to refer to the roles of budget targets in terms of *commitments*, and *responsibilities*, and as a source of *motivation*.

“In regards to quality, there are certain goals and typically we try to achieve them as well as possible. There are certain consequences, if things have been done in the wrong way. The setting of sales targets always makes people do things all over the world.”

When asked directly about the purpose of budget targets, Manager D referred to their role as a *frame for business*. He concludes:

“To make sure that our business makes sense. We know that once we reach a certain turnover with certain numbers, we shall all have enough work, salaries

get paid, and headquarters will still get their share to support other companies [subsidiaries].”

To synthesize, as many as seven purposes were identified based on Manager D’s interview. Benchmarks were also at the top of his list as budgets were interpreted to be as part of broader benchmarks. Unlike the others, he also viewed budget targets to reflect resource allocation.

## 5. Synthesis of the results

### 5.1 *Synthesis of how managers interpret budget targets*

The empirical results on how managers interpret budget targets reflect both shared interpretations and individual-level variations. In line with previous management accounting literature (e.g., Bhimani *et al.*, 2008; Emmanuel *et al.*, 1991), the following fifteen purposes were identified for budget targets: benchmarking, forecasting, frame of business, communication, coordination, goals, monitoring, motivating, strategy implementation, responsibility, action plan, commitment, contract, performance rewarding and resource allocation. As it can be seen from Table 4, almost all interviewees mentioned benchmarking and almost half of them mentioned forecasting and/or frame of business. The other purposes were mentioned less often. These results suggest a surprisingly wide range of interpretations for budget targets even within the same business unit.

[Table 4 about here]

Clear differences were found between whether people emphasized the *ex ante* and/or *ex post* use of budgets. Several of the interviewees emphasized either the forecasting role or the budget targets’ role as benchmarks only. Others (such as Directors A and C and Controller B) indicated that budget targets are set at two levels so that they can simultaneously focus on both forecasting and motivating (/benchmarking) roles (see also Lukka, 1988b). More optimistic targets were set to motivate managers and personnel and more pessimistic targets (forecasts) were set to serve forecasting needs. It was found important that the company meets its targets and forecasts.



All the interviewees interpreted the purposes of budgets in somewhat different ways. The scope of the perceived purposes of budget targets differed from one person to another from a fairly narrow to a wider range of meanings. The combination of the purposes attached to budget targets was also unique to each person. The temporal nature of organizational practices (cf., Boland, 2001) was also evident in that as optimistic predictions had led to financial problems, an additional budget forecast set at a more pessimistic level had been implemented to aid in financial forecasting.

Although accuracy of forecasts was found of great importance, the empirical results also showed significant variation in the perceived nature of budget targets and proposals. Consequently, several of the controllers and managers made attempts to turn the budget target proposals from guesses, dreams, and mistakes into more realistic and accurate numbers or at least to best guesses. Simultaneously, the Controllers created a “buffer” by setting internal targets at more challenging levels than the external targets communicated to headquarters and ultimately to investors in the financial markets.

Finally, in line with Davila and Wouters (2005), Ihantola (2006) and Lukka (1988a), the results indicate that there can be variation in the perceived significance of financial budget targets. In this study, such variation was identified both across individuals and at the functional (departmental) level. Sales targets were perceived as highly important and were followed on a daily or weekly basis. In contrast, budget targets comprised only a small part of the broader control system (and multiple goals) in the other departments such as R&D, production, information management and product engineering and quality. As a consequence, budgetary control was conducted in different ways within the departments.

## *5.2 Synthesis of the interviewees' situationality and corporeality*

The first two columns of Table 3 synthesize some of the key characteristics of each manager's situationality in terms of his or her organizational level, position, functional role, educational and work history. As can be seen from Table 3, the managers are involved in budgeting at various organizational levels, in various functions, and to various degrees. Differences in organizational levels and positions

are apparent in that three of the interviewees represent directors, two controllers and four managers. There is variation in the length of the interviewees' work histories and in how long and to what extent they have participated in budgeting. As Table 4 (Panel 2) shows, only two of the interviewees have educational and work histories in financial management, whilst the others are primarily engineers and work in other functions.

The ages (ranging from 35 to 50 years) and sexes (three women, six men) of the interviewees are also reported to differ (see Panels C and D of Table 2), indicating differences in the managers' corporeality or existence as a set of organic processes. In line with Rauhala's (1983 and 2005) holistic individual image framework, these results suggest that each manager's existence in terms of his or her situationality and corporeality is unique.

## 6 Discussion

### 6.1 *Theoretical and empirical contributions*

Prior budgeting research has examined budget targets, their purposes and nature. Rauhala's (1983, 2005) and Pihlanto's (e.g., 2003, 2005, and 2009) work on the holistic individual framework has explained individual-level differences in how people experience and interpret matters differently in their own consciousness, unique situationalities and corporealities. The current study makes a theoretical contribution by combining these approaches to examine *how* and *why* interpretations of budget targets differ from one manager to another even in the same business unit. It makes a further distinct empirical contribution to the literature because it examines this question empirically with data collected from nine managers and controllers. As recommended in previous studies, several roles for budgets, organizational levels (see Hansen *et al.*, 2003, p. 110; Hansen and Van der Stede, 2004, p. 437) and functions (see Davila *et al.*, 2009, p. 343) were incorporated into our study to analyze managers' interpretation of such information as part of their work and organizational practices (see Hall, 2010; Jönsson, 1988). The contributions of this study to the earlier budgeting literature and to the holistic individual image framework are theoretical and empirical in nature and culminate in the framework presented in Figure 3.

[Place Figure 3 about here]

The findings of this study reveal that organizational budgetary processes can provide different understandings of the purpose and nature of budget targets for each and every controller and manager even within the same highly successful business unit. This happens as controllers and managers create their own subjective and personal interpretations of budget targets in their own consciousness (minds), unique situationalities and corporealities by experiencing, thinking and understanding budgets and budget targets in terms of them being something different. This finding is complementary to previous studies by Ihantola (2006) and Lukka (1988a and 1988b). In those studies, shared and different interpretations of budget targets between the controlling and the controlled levels were the main foci.

The empirical results of the present study enhance the understanding of managers' budget target *horizons*, which form a part of their worldviews in their *consciousness* (minds). The results show how the scope, combination, accuracy, and significance of the perceived purposes of budget targets may differ from one person to another. While the temporal nature (see Boland, 2001) of budget targets could not be fully explored, it was evident in that the formal role of the budget may change, and had changed, over time. Moreover, there may be variation in whether *ex ante* or *ex post* purposes of budgets were emphasized.

The case study also improved the understanding of people's *situationalities* in the use of budgets in the corporate world. Previous studies have suggested that the following factors are likely to affect manager's interpretations of budget targets: personal goals consisting of actor's needs and personality; organizational factors, such as roles, norms and various characteristics of the budgetary system; power factors (authority and influence), situational factors (profitability and uncertainty) and information asymmetry (for reviews, see Davila and Wouters, 2005; Lukka, 1988a). The findings of this study suggest that also the following new factors could be taken into account in the future studies: managers' organizational positions, functional roles, and educational and work histories. Understanding of managers' *corporeality* was improved by acknowledging that they were physically present in budgeting processes.

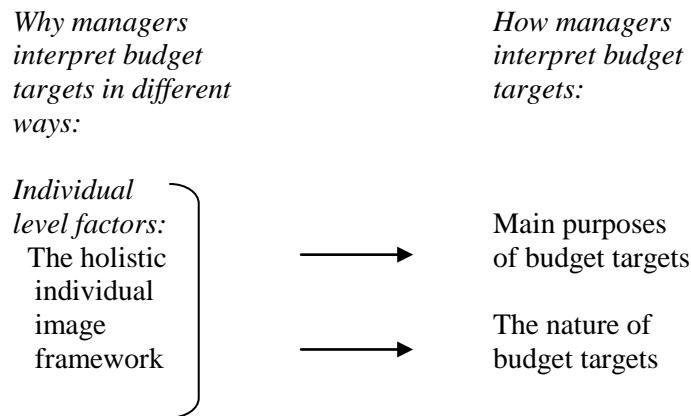
## 6.2 *Practical implications*

Our results confirm that budget targets not only affect people's thinking and behavior, but that people affect the ways in which budgets are interpreted and used as part of organizational practices. The results also imply that similar understandings of budget targets are difficult to achieve within an organization. This is because personal and subjective interpretations exist and thrive. Managers may understand targets in different, and perhaps even in contradictory ways, which may, in turn, impair the functioning of control systems. It could, however, be highly useful to jointly discuss the intended primary purposes and nature of organizational budget targets.

## 6.3 *Limitations and forthcoming studies*

This study is subject to certain limitations. First, the framework adopted is both enabled and limited by its basic assumptions. Since it focuses its attention on the individual, it lacks explaining or understanding the dynamics of the socially – between individuals – constructed meanings (see also Määttä, 2005). Second, some of the interviews had to be conducted within tight schedules. Ideally, interviews should be spread over a longer period of time. Third, the characteristics of a case study may make the findings most relevant to companies with similar profiles (Davila *et al.*, 2009, p. 342). Managers working, for example, in under- or average-performing companies might interpret budget targets differently than those interviewed in our study. Within these constraints, the study furthers understanding of the characteristics of managers and what they perceive this important feature of accounting to mean in practice.

Future research could continue the analysis of budget targets in at least two ways. First, individual-level case (field) research would be a promising approach to further examine processing of budget targets and its various behavioral, social, environmental and institutional aspects. Second, statistical research could be conducted in a larger sample of managers to analyze the strength of the links between the variables examined.



**Figure 1. The research framework.**

**Table 1. Respondents by functional area, education, age and gender (n=9).**

	<i>n</i>	<i>%</i>
<i>Panel A: Functional area</i>		
Accounting and finance	3	33
Information management	1	11
Logistics	1	11
Production	1	11
Product engineering and quality	1	11
Research, development, etc.	1	11
Sales	1	11
<i>Panel B: Education</i>		
MSc in Accounting and Finance	2	22
Academic engineer	4	44
Advanced academic engineer	1	11
Engineer	1	11
n/a	1	11
<i>Panel C: Age</i>		
35	1	11
36	1	11
38	1	11
39	1	11
40	2	22
45	1	11
50	1	11
n/a	1	11
<i>Panel D: Gender</i>		
Female	3	33
Male	6	66

**Table 2. Interview Statistics**

Dates	Number of Interviews	Average Length of Interview	Job Titles
Feb. 2, 2004	1	1.5 hours	Director A
March 4, 2004	3	2.6 hours	Controller A Controller B Manager A
March 25, 2004	1	1.0 hour	Director B
	3	1.0 hour	Manager B Manager C Manager D
April 4, 2004	1	1.4 hours	Director C
April 16, 2004	1	1.0 hour	Director B
Dec. 20, 2004	7	0.8 hours	Controller B Controller C Manager A Director B Manager B Manager C Manager D

**Table 3. Empirical Results**

<i>The functional role and position of the interviewee</i>	<i>Educational and work history</i>	<i>Age and sex</i>	<i>The roles and purposes of budget targets</i>	<i>The nature of budget targets</i>
Controller A (Finance Director)	<ul style="list-style-type: none"> <li>- MSc in Acc. &amp; Fin.</li> <li>- about 15 years' work experience in financial management</li> <li>- past four years' in the business unit</li> <li>- in charge of business unit financial management</li> </ul>	<ul style="list-style-type: none"> <li>- about 40 years old</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) forecasting</li> <li>2) motivating</li> </ul>	<ul style="list-style-type: none"> <li>- accuracy ranges from high to low ("guesses" and "mistakes")</li> <li>- budget targets set at two levels: optimistic and pessimistic</li> </ul>
Controller B	<ul style="list-style-type: none"> <li>- MSc in Acc. &amp; Fin.</li> <li>- about 15 years' work experience in financial management</li> <li>- worked previously at another unit of the corporation</li> <li>- about 2 years in the current position</li> <li>- prepares and monitors profit center budget</li> </ul>	<ul style="list-style-type: none"> <li>- 38 years old</li> <li>- female</li> </ul>	<ul style="list-style-type: none"> <li>1) benchmarking</li> <li>2) communication</li> <li>3) coordination</li> <li>4) frame of business</li> <li>5) forecasting</li> </ul>	<ul style="list-style-type: none"> <li>- accuracy of budget target proposals ranges from "dreams" to "guesses" and "best guesses"</li> <li>- more and less important benchmarks</li> </ul>
Controller C	<ul style="list-style-type: none"> <li>- academic engineer</li> <li>- 10 years' work experience at the corporation</li> <li>- less than a year in the current position</li> <li>- prepares and monitors profit center budget</li> </ul>	<ul style="list-style-type: none"> <li>- 36 years old</li> <li>- female</li> </ul>	<ul style="list-style-type: none"> <li>1) forecasts</li> <li>2) benchmarks</li> <li>3) action plan</li> </ul>	<ul style="list-style-type: none"> <li>- budgeting important</li> </ul>
Director A (Logistics)	<ul style="list-style-type: none"> <li>- an advanced academic degree in engineering</li> <li>- 25 years' work experience in his field</li> <li>- over 7 years' experience in the corporation</li> <li>- less than a year in the current position</li> <li>- participates in budgetary planning of five cost centers</li> </ul>	<ul style="list-style-type: none"> <li>- 50 years old</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) benchmarking</li> <li>2) strategy implementation</li> </ul>	<ul style="list-style-type: none"> <li>- more and less important benchmarks</li> </ul>
Director B (Sales)	<ul style="list-style-type: none"> <li>- 20 years' work experience at the corporation in various positions and departments</li> <li>- about three years in the current position</li> <li>- deeply involved in budgetary planning and control of sales units in 45 countries</li> </ul>	<ul style="list-style-type: none"> <li>- middle-aged</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) contract</li> <li>2) benchmarks</li> <li>3) goals</li> </ul>	<ul style="list-style-type: none"> <li>- important benchmarks</li> <li>- dreams</li> </ul>

Manager A (Information management)	<ul style="list-style-type: none"> <li>- academic engineer</li> <li>- about 10 years' work experience at the corporation</li> <li>- about four years' at the current position</li> <li>- participates in the budgetary planning and follow-up of overhead and project costs</li> </ul>	<ul style="list-style-type: none"> <li>- 40 years old</li> <li>- female</li> </ul>	<ul style="list-style-type: none"> <li>1) benchmarking</li> <li>2) coordinating activities</li> <li>3) a frame for business</li> </ul>	<ul style="list-style-type: none"> <li>- budget targets important, but at times faulty and erroneous</li> <li>- follow-up accurate, but flexible</li> <li>- reacting to targets more or less up to date but subject to functional differences</li> <li>- budgeting important</li> </ul>
Manager B (R&D)	<ul style="list-style-type: none"> <li>- academic engineer</li> <li>- about 15 years' work experience at the corporation</li> <li>- participates in preparing a cost budget for his own department</li> </ul>	<ul style="list-style-type: none"> <li>- 39 years old</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) benchmarking</li> <li>2) performance rewarding</li> <li>3) monitoring</li> <li>4) forecasting</li> <li>5) a frame for business</li> </ul>	<ul style="list-style-type: none"> <li>- departmental budgets not very important, but mostly supportive</li> </ul>
Manager C (Production)	<ul style="list-style-type: none"> <li>- academic engineer</li> <li>- about nine years' work experience at the corporation</li> <li>- participates in planning a budget for his department, although does not recognize it</li> </ul>	<ul style="list-style-type: none"> <li>- 35 years old</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) communication</li> <li>2) benchmarking</li> <li>3) strategy implementing</li> </ul>	<ul style="list-style-type: none"> <li>- a best "guess"</li> <li>- realistic</li> </ul>
Manager D (Product engineering and quality)	<ul style="list-style-type: none"> <li>- engineer</li> <li>- 14 years' work experience in the corporation</li> <li>- about one year at the current position</li> <li>- participated in the planning of overhead costs and wages of employees in his own team initially</li> </ul>	<ul style="list-style-type: none"> <li>- 45 years old</li> <li>- male</li> </ul>	<ul style="list-style-type: none"> <li>1) benchmarks</li> <li>2) goals</li> <li>3) resource allocation</li> <li>4) commitments</li> <li>5) responsibilities</li> <li>6) motivating</li> <li>7) frame of business</li> </ul>	<ul style="list-style-type: none"> <li>- budgets are part of broader benchmarks</li> </ul>



**Table 4. The emphasized roles and purposes of budget targets (n=9).**

	n
<i>Panel A. Roles and purposes</i>	
Benchmarking	8
Frame of business	4
Forecasting	4
Communication	2
Coordination	2
Goals	2
Monitoring	2
Motivating	2
Strategy implementation	2
Commitment, responsibility	2
Action plan	1
Commitment	1
Contract	1
Performance rewarding	1
Resource allocation	1

*Why managers interpret  
budget targets differently:*

*The holistic individual  
image framework:  
individual-level differences in:*

1. Consciousness  
Experiencing,  
thinking and  
understanding
2. Situationality  
Educational history  
Work history  
Organizational level  
and position  
Functional role
3. Corporeality  
Physical existence  
in a situation (age,  
sex, etc.)



*How managers interpret  
budget targets:*

*1. The perceived main purposes  
of budget targets:*

- *ex ante use of information*  
Plans, forecasts, estimates  
Communication of expectations  
Coordination of activities  
Resource allocation  
Authorization  
Motivation
- *ex post use of information*  
Responsibilities, commitments  
Contracts, standards, benchmarks  
Monitoring  
Performance evaluation & rewarding

- *intended versus actual purposes*
- *scope of purposes* (narrow – wide)
- *combination of purposes*

*2. The nature of budget targets*

- accuracy
- significance as part of organizational  
and functional (departmental) practices
- temporal dimension

**Figure 2. Why and how managers interpret budget targets: A framework.**

Appendix 1. Examples of interview themes